

Message Text

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ACTION ARA-20

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TO SECSTATE WASHDC 8629

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TAGS: ECON, EAGR, PE

SUBJ: GOP RAISES PRICES OF PRODUCTS MADE FROM WHEAT

REF: LIMA 0616; LIMA 0400

1. CITING THE "GREAT WORLD CRISIS" IN THE SUPPLY OF WHEAT AND THE "UNPRECEDENTED" INCREASE IN THE INTERNATIONAL PRICE OF WHEAT, THE PERUVIAN GOVERNMENT ON JANUARY 23 RAISED THE PRICE OF FLOUR, BREAD AND NOODLES (FIDEOS). FOR SEVERAL DAYS PRIOR TO TAKING THIS ACTION, THE GOP RAN FULL PAGE ADS IN THE LOCAL PAPERS AND ANNOUNCEMENTS ON TELEVISION AND RADIO DETAILING THE MAGNITUDE OF THE SUBSIDY BEING PROVIDED BY THE GOVERNMENT TO CONSUMERS ON WHEAT PRODUCTS AND STATING THE NECESSITY OF MEASURES TO REDUCE THIS SUBSIDY. ACCORDING TO THESE ADS, THE SUBSIDY IN 1973 AMOUNTED TO S/.1,960 MILLION OR \$50.6 MILLION AND WOULD RISE TO S/.3,000 MILLION OR \$77.5 MILLION IN 1974 IN THE ABSENCE OF APPROPRIATE MEASURES. THE SUPREME DECREE RAISING THESE PRICES STATES THAT THE GOVERNMENT HAS RESOLVED TO ASSUME AN IMPORTANT PART OF THE INCREASE IN COSTS TO BENEFIT THE CONSUMER.

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2. THE PRICE OF FLOUR AT THE MILL WAS INCREASED BY 54 PERCENT, THE PRICE OF BREAD BY 43 PERCENT AND THE PRICE OF THE MOST POPULAR

TYPE OF FIDEOS (NOODLES, SPAGHETTI, ETC.) WAS INCREASED BY 40 PERCENT AT THE FACTORY LEVEL. WHOLESALERS OF FIDEOS CAN ADD FREIGHT TO THE PRICE WHEN THEY ARE SOLD AT OUTLETS APART FROM THE FACTORY, AND RETAILERS CAN ADD A MARKUP OF 14 PERCENT ON THE PRICE OF FIDEOS. THE PRICE OF EACH PIECE OF FRENCH BREAD, IN THE FORM OF A BISCUIT WEIGHING 40 GRAMS, WHICH IS THE MOST POPULAR TYPE OF BREAD CONSUMED IN PERU, WAS RAISED FROM /.35 SOLES TO /.50 SOLES (\$.0115). ALL OTHER BREADS ARE TO INCREASE PROPORTIONATELY IN PRICE AND THE PRICES OF OTHER BAKERY PRODUCTS (CAKES, PIES, ETC.) CAN BE INCREASED ONLY TO REFLECT THE INCIDENCE OF THE INCREASE IN THE COST OF FLOUR.

3. COMMENT: THE FACT THAT THE GOP FELT IT NECESSARY TO CAREFULLY PREPARE THE PEOPLE PSYCHOLOGICALLY FOR THESE PRICE INCREASES IS INDICATIVE OF THE AT LEAST PERCEIVED LACK OF PUBLIC SUPPORT FOR THE GOVERNMENT'S POLICIES AND THE GOP'S FEARS OF A DIRECT CONFRONTATION WITH THE URBAN MASSES. IT IS INTERESTING TO NOTE THAT THERE HAS BEEN NO INCREASE IN GASOLINE PRICES IN PERU IN SPITE OF A LARGE AND GROWING SUBSIDY; THE GOVERNMENT HAS OPTED INSTEAD TO REDUCE CONSUMPTION BY PROHIBITING THE CIRCULATION OF PRIVATE SERVICE VEHICLES ON CERTAIN DAYS OF THE WEEK (LIMA 0400). THE ABILITY OF THE RELATIVELY WELL ORGANIZED PUBLIC TRANSPORT (COLLECIVOS, BUSES, ETC.) WORKERS TO DISRUPT ECONOMIC ACTIVITY AT LEAST IN THE LIMA METROPOLITAN AREA AND THE LIKELY WILLINGNESS OF OTHER LABOR GROUPS TO SUPPORT SUCH DISRUPTION PROBABLY WEIGHS HEAVILY IN THE GOP'S DECISION IN THIS REGARD. IT IS ALSO TRUE, HOWEVER, THAT THE MEASURE TAKEN TO SAVE GASOLINE WILL HAVE THE LEAST ADVERSE EFFECT ON THE LOWER INCOME SEGMENTS OF PERUVIAN SOCIETY SINCE THEY DO NOT OWN AUTOMOBILES AND THEREFORE THIS MEASURE IS IN ACCORD WITH THE GOP'S STATED GOAL OF IMPROVING RELATIVELY THE LOT OF THESE SEGMENTS.

4. THE ECONOMIC EFFECT OF THESE PRICE INCREASES WILL BE, OF COURSE, TO INCREASE THE GENERAL COST-OF-LIVING IN PERU. WHILE THESE PRODUCTS ARE STAPLES OF THE PERUVIAN DIET, THEIR WEIGHT IN THE BUDGET OF THE AVERAGE CITIZEN IS LIMITED OFFICIAL USE
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ZEN IS RATHER SMALL (AS A ROUGH ESTIMATE, 5 PERCENT OF THE AVERAGE PERUVIAN'S INCOME IS SPENT ON THESE PRODUCTS). MUCH MORE SERIOUS COULD BE THE "INFLATIONARY PSYCHOLOGY" EFFECT WHICH MIGHT FLOW FROM THESE INCREASES WHICH HAVE COME AT A TIME WHEN INFLATION HAS REACHED RATHER SERIOUS PROPORTIONS (14 PERCENT IN 1973).

5. THUS FAR, PUBLIC AND PRESS REACTION TO THESE INCREASES HAVE BEEN NEGLIGIBLE.
BELCHER

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